

Message Text

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ACTION EB-08

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
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FM USMISSION GENEVA

TO SECSTATE WASHDC 5361

INFO ALL EC CAPITALS 171

UNCLAS SECTION 1 OF 3 GENEVA 1256

PASS STR AND AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A

TAGS: EAGR, ETRD, EEC

SUBJECT: U.S. DEL STATEMENT IN ARTICLE XXII:1 CONSULTATIONS ON
EC WHEAT FLOUR SUBSIDIES

1. FOLLOWING IS STATEMENT MADE BY U.S. DEL (FRASER) AT
ARTICLE XXII:1 CONSULTATIONS ON EC WHEAT FLOUR SUBSIDIES,
FEBRUARY 14.

BEGIN TEXT:

THE U.S. GOVERNMENT HAS BEEN CONCERNED FOR SOME
TIME THAT U.S. EXPORTS OF WHEAT FLOUR HAVE BEEN ADVERSELY
AFFECTED BY EXPORT SUBSIDIES PAID BY THE EC TO ITS FLOUR
MILLERS, AND THAT THESE SUBSIDIES VIOLATE THE PROVISIONS
OF GATT. IN ADDITION, THE U.S. FLOUR MILLING INDUSTRY
HAS MADE STRONG REPRESENTATIONS TO OUR GOVERNMENT
ALLEGING UNFAIR TRADE PRACTICES BY THE EC IN ITS
SUBSIDIZATION OF WHEAT FLOUR EXPORTS. FOR THESE REASONS
WE HAVE REQUESTED THIS CONSULTATION UNDER THE PROCEDURES
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OF ARTICLE XXII:1.

WE HAVE EXAMINED IN GREAT DETAIL THE DEVELOPMENT OF
U.S. AND EC FLOUR EXPORTS OVER THE PAST TEN YEARS.
WHILE WE HAVE LONG BEEN AWARE, AND CONCERNED OVER, THE
COMMUNITY'S AGGRESSIVE EXPORT POLICIES FOR WHEAT FLOUR, THIS
EXAMINATION REVEALED THE SIGNIFICANT EXTENT TO WHICH SUBSIDIZED

EXPORTS FROM THE EC HAVE PENETRATED WORLD MARKETS. THE DATA THAT WE HAVE ACCUMULATED ON WORLD FLOUR TRADE AND SUBSIDY PRACTICES OF THE EC CLEARLY INDICATE THAT THE EC SUBSIDY SYSTEM FOR WHEAT FLOUR HAS ENABLED THE COMMUNITY TO OBTAIN AN INEQUITABLE SHARE OF WORLD FLOUR TRADE, IN CONTRAVENTION OF THE GATT AND IMPAIRING BENEFITS ACCRUING TO THE US. UNDER THE GATT. IN OUR VIEW, THERE IS A CLEAR NEED FOR CORRECTIVE ACTION TO BE TAKEN BY THE EC, TO BRING THE OPERATION OF THE FLOUR SUBSIDY SYSTEM INTO CONFORMITY WITH THE EC'S OBLIGATIONS UNDER THE GATT, AND WE WOULD HOPE THIS COULD BE ACCOMPLISHED WITHOUT RESORT TO MORE FORMAL GATT PROCEDURES.

WE ARE HERE TO CONSULT WITH YOU TODAY UNDER ARTICLE XXII:1 CONCERNING DEVELOPMENTS IN WORLD FLOUR TRADE OVER THE PAST FEW YEARS, INCLUDING WHAT HAS HAPPENED IN SPECIFIC MARKETS AND THE PRICE COMPETITION FOR U.S. AND EC FLOUR ON WORLD MARKETS. IN ADDITION, WE HOPE YOU WILL BE FORTHCOMING WITH EXPLANATIONS ON THE OPERATION OF THE SUBSIDY SYSTEM AND ON EC GOALS IN SUBSIDIZING FLOUR EXPORTS. WE WILL TOUCH ON ALL THESE POINTS NOW, TO SET THE STAGE FOR MORE DETAILED DISCUSSION DURING THE COURSE OF THESE CONSULTATIONS TODAY.

LOOKING AT TOTAL WORLD TRADE IN WHEAT FLOUR, BASED ON STATISTICS PUBLISHED BY THE INTERNATIONAL WHEAT COUNCIL, WE NOTE THAT IN THE FIVE-YEAR PERIOD 1962/63 - 1966/67, WHICH PRECEDED THE ESTABLISHMENT OF COMMON EC GRAIN PRICES AND SUBSIDIES, WORLD FLOUR EXPORTS TOTALED SIX MILLION TONS ON UNCLASSIFIED

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A WHEAT EQUIVALENT BASIS. EXPORTS FROM EC COUNTRIES TOTALED 1.6 MILLION TONS AND ACCOUNTED FOR 27 PERCENT OF WORLD EXPORTS. U.S. FLOUR EXPORTS WERE CLOSE TO 2.3 MILLION TONS, ACCOUNTING FOR 38 PERCENT OF WORLD EXPORTS. IN SUBSEQUENT YEARS, TOTAL FLOUR TRADE TENDED TO DECLINE, NO DOUBT DUE TO CONSTRUCTION OF FLOUR MILLS IN A NUMBER OF COUNTRIES. EC EXPORTS, HOWEVER, TRENDED UPWARD WHILE EXPORTS FROM THE OTHER MAJOR FLOUR EXPORTERS, INCLUDING THE U.S., DECLINED. BY FISCAL YEAR 1973/74, EC EXPORTS HAD INCREASED BY ALMOST ONE MILLION TONS AND THE EC SHARE OF WORLD TRADE HAD ALMOST DOUBLED, TO 53 PERCENT. THE U.S. SHARE, MEANWHILE, HAD BEEN HALVED, DROPPING TO ONLY 19 PERCENT. IN 1974/75, THE EC ACCOUNTED FOR 52 PERCENT OF WORLD EXPORTS AND THE U.S. ONLY 17 PERCENT.

WE, OF COURSE, REALIZE THAT FOOD AID HAS MADE UP A SIGNIFICANT PART OF WORLD FLOUR TRADE, PARTICULARLY IN THE CASE OF U.S. EXPORTS. CONSEQUENTLY, AGAIN USING IWC DATA, WE HAVE CALCULATED WORLD COMMERCIAL EXPORTS OF FLOUR AND RELATIVE MARKET SHARES. THE STORY HERE IS MUCH THE SAME

AS IN THE CASE OF TOTAL WORLD EXPORTS. THE EC SHARE OF WORLD COMMERCIAL EXPORTS ROSE FROM 37 PERCENT IN 1962/63 - 1966/67 TO A PHENOMENAL 69 PERCENT IN 1973/74. IN THE FOLLOWING YEAR, THE EC SHARE DROPPED TO 61 PERCENT. THE U.S. SHARE OF WORLD COMMERCIAL EXPORTS DROPPED FROM AN AVERAGE OF 16 PERCENT IN THE MID-1960'S TO A LOW OF 8 PERCENT IN 1973/74. SOME RECOVERY OCCURRED IN 1974/75, WITH THE U.S. SHARE INCREASING TO 10 PERCENT.

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PASS STR AND AGRICULTURE ELECTRONICALLY

ACCORDING TO TRADE STATISTICS WE HAVE OBTAINED FROM EC PUBLICATIONS, EC EXPORTS OF FLOUR, ON A FLOUR BASIS INCREASED FROM AN ANNUAL AVERAGE OF 1.1 MILLION TONS IN THE PERIOD 1964 - 1966 TO ABOUT 1.7 MILLION TONS IN 1972 - 1974. WE NOTE THAT A LITTLE OVER 43 PERCENT OF THIS GROWTH OF SOME 600,000 TONS IS ACCOUNTED FOR BY SALES TO NORTH KOREA. BUT THAT STILL LEAVES ALMOST 350,000 TONS GROWTH IN EXPORTS TO OTHER MARKETS. THESE INCREASED SALES OCCURRED PRIMARILY TO SRI LANKA, SAUDI ARABIA, EGYPT, JAMAICA, SYRIA, ZAIRE, YEMEN AND LIBYA. MANY OF THESE MARKETS HAVE BEEN TRADITIONAL U.S. CUSTOMERS, AND UNQUESTIONABLY U.S. SALES TO THESE MARKETS WERE ADVERSELY AFFECTED BY SUBSIDIZED EXPORTS FROM THE EC.

SAUDI ARABIA HAS BEEN THE PRINCIPAL COMMERCIAL MARKET FOR THE U.S., TAKING 70 PERCENT OF U.S. COMMERCIAL FLOUR EXPORTS IN 1975/76. USING IWC DATA, WE HAVE CALCULATED

AVERAGE IMPORTS INTO SAUDI ARABIA IN FOUR-YEAR PERIODS
TO EVEN OUT FLUCTUATIONS ON A YEAR-TO-YEAR BASIS. THESE
DATA SHOW THAT IN THE PERIOD 1963/64 - 1966/67, THE U.S.
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SUPPLIED 89 PERCENT AND THE EC 3 PERCENT, OF SAUDI ARABIA'S
IMPORTS OF 141,800 TONS. IN THE PERIOD 1971/72 - 1974/75,
THE U.S. SHARE HAD DROPPED TO 60 PERCENT, AND THE EC SHARE HAD
INCREASED TO 36 PERCENT. SAUDI ARABIA'S IMPORTS THEN AVERAGED
269,000 TONS PER YEAR. PRELIMINARY DATA FOR 1975/76 SHOW THAT
THE EC SUPPLIED 38 PERCENT, AND THE U.S. 59 PERCENT, OF SAUDI
ARABIA'S IMPORTS OF 485,211 TONS.

DEVELOPMENTS IN THE SAUDI MARKET OFFER VERY CLEAR
EXAMPLES OF SUBSIDIZED EC FLOUR PENETRATING A TRADITIONAL
U.S. MARKET AND CAPTURING LARGER AND A LARGER SLICE OF
SALES, PRIMARILY AT THE EXPENSE OF U.S. MILLS.

JAMAICA, ALSO A COMMERCIAL MARKET, OFFERS ANOTHER
EXAMPLE OF THE ENCROACHMENT BY SUBSIDIZED EC EXPORTS. THE
EC DID NOT ENTER THE BAKING FLOUR MARKET IN JAMAICA UNTIL
1967, THE FIRST YEAR IN WHICH COMMON EC EXPORT SUBSIDIES
WERE GRANTED. IN RECENT YEARS, THE EC HAS SUPPLIED AS MUCH
AS 60 PERCENT OF JAMAICA'S IMPORTS OF BAKING FLOUR. OF JAMAICA'S
TOTAL FLOUR IMPORTS, THE EC HAS SUPPLIED AS MUCH AS 70 PERCENT IN
RECENT YEARS, COMPARED TO AN AVERAGE OF 32 PERCENT IN THE
MID-1960'S.

IN MOST OTHER MARKETS, U.S. EXPORTS HAVE CONSISTED
PRIMARILY OF FOOD AID SHIPMENTS UNDER P.L. 480. U.S. AID
SHIPMENTS OF FLOUR DECREASED FROM OVER ONE MILLION TONS IN
1971 TO ONLY 414,000 TONS IN 1975/76. WE NOTE THAT AS
THESE AID SHIPMENTS HAVE DROPPED, COMMERCIAL PURCHASES OF
THE COUNTRIES INVOLVED HAVE TENDED TO INCREASE. THIS IS,
OF COURSE, AS IT SHOULD BE. AS THE ECONOMIES OF DEVELOPING
COUNTRIES BECOME MORE VIABLE, CONCESSIONAL AND OTHER FOOD
AID SALES SHOULD BE PHASED OUT, AND BE REPLACED BY COMMERCIAL
PURCHASES. THE PROBLEM FOR THE U.S., HOWEVER, IS THAT THE
INCREASED COMMERCIAL PURCHASES HAVE BEEN PRIMARILY TAKEN
OVER BY SUBSIDIZED EC SALES, OFTEN AT PRICES FAR BELOW
OFFERINGS OF COMPARABLE NON-SUBSIDIZED FLOURS. IN SRI
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LANKA, FOR EXAMPLE, THE EC SUPPLIED 74 PERCENT OF THAT
COUNTRY'S AVERAGE COMMERCIAL IMPORTS OF 296,000 TONS IN
THE PERIOD 1971/72 - 1974/75, COMPARED TO 44 PERCENT IN 1967/68 -

1970/71.

THE SITUATION IN OTHER MARKETS SUCH AS ZAIRE AND JORDAN HAS BEEN SIMILAR TO THAT IN SRI LANKA.

WE DO NOT BELIEVE THAT THE INCREASES IN EC SHARES OF WORLD FLOUR TRADE WOULD HAVE TAKEN PLACE IN THE ABSENCE OF AGGRESSIVE EXPORT SUBSIDIZATION BY THE EC. THE TRADE DATA AND COMPARATIVE PRICES ON WORLD MARKETS CLEARLY INDICATE THAT THE OPERATION OF THE SUBSIDY SYSTEM IS AIMED AT ENABLING EC EXPORTERS TO PRICE FLOUR SIGNIFICANTLY BELOW OTHER FLOUR EXPORTERS TO ENSURE THAT SALES GO TO THE COMMUNITY AND NOT MERELY AT MEETING PRICES OF PRINCIPAL COMPETITORS.

PRICE COMPARISONS SHOW THAT EC PRICES HAVE BEEN CONSISTENTLY, AND SIGNIFICANTLY, BELOW PRICES FOR U.S. FLOUR. FOR EXAMPLE, IN BARBADOS IN FEBRUARY 1976, A U.S. FIRM OFFERED FLOUR, CIF BASIS, AT \$318 A TON. THE EC OFFER WAS \$268 - A DIFFERENCE OF \$50 PER TON; SRI LANKA MARCH 1976 - BELGIUM SOLD AT \$215 PER TON, CASH BASIS. THE COMPARABLE U.S. OFFER WAS \$267 PER TON, OR \$52 PER TON HIGHER.

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PASS STR AND AGRICULTURE ELECTRONICALLY

IN FORDAN, JULY 1976 - THE U.S. OFFERED
AT \$332 PER TON, C&F; A GERMAN OFFER WAS \$223 - A

STAGGERING \$109 PER TON LESS THAN THE U.S. OFFERING PRICE. SRI LANKA, IN OCTOBER 1976, REPORTEDLY PURCHASED FLOUR FROM EC FIRMS AT PRICES RANGING FROM \$169 - \$188N PER TON C&F. THE BEST U.S. OFFER WAS \$215, CASH BASIS. WE HAVE IN FACT COMPILED PRICE QUOTATIONS FOR MORE THAN 20 TRANSACTIONS BETWEEN 1973 AND 1976, WHEN THE SAME PATTERN OF SEVERE PRICE CUTTING BY THE EC HAS OCCURRED.

WE RECOGNIZE THAT FACTORS SUCH AS VARYING PAYMENT TERMS AND FREIGHT DIFFERENTIALS MAKE PRICE COMPARISONS VERY COMPLEX. BUT PRICE DIFFERENTIALS OF \$50 OR \$100 PER TON CERTAINLY CANNOT BE ACCOUNTED FOR BY SUCH FACTORS AND, IN OUR VIEW, AMOUNT TO WHAT CAN ONLY BE DESCRIBED AS OVERKILL ON THE PART OF THE EC. IT SEEMS TO US THAT YOU'RE SPENDING A LOT MORE MONEY THAN IS NECESSARY ON SUBSIDIES IF YOUR OBJECTIVE IS TO SIMPLY MAKE EC FLOUR COMPETITIVE IN WORLD MARKETS. ON THIS POINT, WE WOULD BE INTERESTED IN YOUR CLARIFICATION OF THE EC EXPORT POLICY GOALS AND WHETHER

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EC WHEAT FARMERS ARE REALLY THE BENEFICIARIES OF THE SUBSIDY SYSTEM THAT ENABLES EC EXPORTERS TO UNDERCUT PRICES OF FLOUR FROM OTHER ORIGINS. WE WONDER WHY FEOGA FUNDS, WHICH ARE SUPPOSED TO AID EC AGRICULTURE, ARE BEING USED TO SUBSIDIZE EUROPEAN INDUSTRY.

WE WOULD ALSO BE INTERESTED IN DISCUSSING HOW YOU GO ABOUT CALCULATING EC AND WORLD MARKET PRICES FOR FLOUR FOR THE PURPOSE OF ESTABLISHING YOUR SUBSIDIES. THERE IS OBVIOUSLY NO LINK BETWEEN WHEAT FLOUR SUBSIDIES AND SUBSIDIES FOR WHEAT SINCE WE NOTE THAT YOU NOW HAVE A SUBSIDY OF 80 UNITS OF ACCOUNT PER TON FOR LOW ASH CONTENT FLOUR BUT THERE IS NO SUBSIDY CURRENTLY IN EFFECT FOR WHEAT EXPORTED TO MOST DESTINATIONS.

IF, AS IT APPEARS, YOU USE WHEAT PRICES, CONVERTED TO A FLOUR BASIS, FOR DETERMINING EC AND WORLD FLOUR PRICES, WE WONDER WHAT WHEAT PRICES AND CONVERSION FACTORS YOU USE. WE HAVE THE IMPRESSION, BASED ON COMPARATIVE FLOUR PRICES, THAT YOU USE THE LOWEST WHEAT PRICE YOU CAN FIND ON THE WORLD MARKET TO ESTABLISH A WORLD FLOUR PRICE USING LOW CONVERSION FACTORS AND THE HIGHEST EC WHEAT PRICE TO ESTABLISH AN EC FLOUR PRICE USING A HIGH CONVERSION FACTOR AND LOW BYPRODUCT VALUES.

WE HEAR VERY FREQUENTLY FROM EC SPOKESMEN ABOUT THE NEED TO ESTABLISH GREATER PRICE STABILITY IN WORLD MARKETS. SURELY THE EC SUBSIDY PRACTICES ON WHEAT FLOUR DO NOT CONTRIBUTE TO STABILITY IN THE WORLD FLOUR MARKET.

GENTLEMEN, WE HAVE LAID OUT FOR YOU OUR CONCERNS
AND INFORMATION WE HAVE ON THE COMMUNITY'S FLOUR SUBSIDY
SYSTEM. WE HOPE THAT WE CAN HAVE AN OPEN AND FULL
DISCUSSION OF THE ISSUES INVOLVED AND THAT THTHESE DISCUSSIONS
WILL PAVE THE WAY FOR A MUTUALLY SATISFACTORY SOLUTION.
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Message Attributes

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